




OFFICE OF THE COUNTY AUDITOR

MEMORANDUM

Keith Zumbrun C.I.S.A.
Acting County Auditor

March 5, 2007

MEMO TO: County Council
County Executive

FROM: Keith Zumbrun 
Acting County Auditor

SUBJECT: Agricultural Land Preservation Program Audit –State Required Audit

The County Auditor's Office has completed an audit of the County's Agricultural Land Preservation Program for the fiscal year ended June 30, 2006. Enclosed is a copy of our letter transmitting the report to the State Department of Agriculture.

Our review of program activity disclosed that for Fiscal Year 2006, State agricultural transfer taxes collected by Howard County totaled \$1,697,369, of which \$424,342 was transmitted to the State. The County retained \$1,273,027, of the tax which is the County's share.

In Fiscal Year 1990, Howard County began implementation of its new Agricultural Land Preservation Program. During Fiscal Year 2006, the County did not purchase development rights on any new property. **The County remained in compliance with the State's three-year expenditure rule (see Note 4 of the report). Total expenditures of the program, including administrative expenses, were \$4,886,413.**

The activity of the fund is summarized in the attached report which has also been forwarded to the State Department of Agriculture and appropriate department heads. If you require any additional information on this matter, please let me know.

DL:szs

cc: Lonnie. R. Robbins, Chief Administrative Officer
Sharon F. Greisz, Director, Department of Finance
Marsha McLaughlin, Director, Department of Planning & Zoning
Lois Miller, Administrative Services Officer

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OFFICE OF THE COUNTY AUDITOR

Keith Zumbrun C.I.S.A.
Acting County Auditor

March 2, 2007

Lewis R. Riley, Secretary
State of Maryland Department of Agriculture
50 Harry S. Truman Parkway
Annapolis, MD 21401-7080

Dear Mr. Riley:

The Howard County Auditor's Office has completed an audit of the County's Agricultural Land Preservation Program for the fiscal year ended June 30, 2006. Our review included steps to determine the following items:

- The fund balance of the Agricultural Land Preservation Fund
- The amount of Agricultural Tax Revenues collected by Howard County
- The amount of Agricultural Tax Revenues forwarded from Howard County to the State of Maryland
- The amount of funds expended from Agricultural Tax Revenues and the purpose of those expenditures
- Compliance with the State's "three year rule" relating to the expenditure of Agricultural Tax Revenues
- Adequacy of internal controls over the recognition and collection of Agricultural Tax Revenues

In addition to the State program, the County funds its own Agricultural Land Preservation Program by designating 25% of its local transfer taxes collected for that purpose. Financial resources for both programs are pooled in the same fund to which all program expenditures are charged. **Our review of program activity disclosed that for Fiscal Year 2006, State agricultural transfer taxes collected by Howard County totaled \$1,697,369, of which \$424,342, was transmitted to the State. The County retained \$1,273,027 of the tax which is the County's share.**

Lewis R. Riley, Secretary
March 2, 2007
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In Fiscal Year 1990, Howard County began implementation of its new Agricultural Land Preservation Program. Under this program, landowners are given an installment purchase agreement in the form of a bond in exchange for the development rights to their land. They receive principal and interest payments on the agreement over a 30-year period. During fiscal year 2006, the County did not purchase development rights on any new property. **The County remained in compliance with the State's three-year expenditure rule (see Note 4 of the report). Total expenditures of the program, including administrative expenses, were \$4,886,413.**

The activity of the fund is summarized in the attached report, which should satisfy the audit requirements of your department. If you require any additional information on this matter, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith Zumbrun", with a long horizontal flourish extending to the right.

Keith Zumbrun C.I.S.A.
Acting County Auditor

DL:szs

cc: Council Members

Ken Ulman, County Executive

Howard Levenson, State Department of Assessments

Sharon F. Greisz, Director, Department of Finance

Marsha McLaughlin, Director, Department of Planning & Zoning

Elmina Hilsenrath, Chief, Div. of Environmental & Community Planning

**AGRICULTURAL LAND PRESERVATION PROGRAM
STATEMENT OF REVENUES,
EXPENDITURES AND FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Office of the County Auditor



AGRICULTURAL LAND PRESERVATION PROGRAM
STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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OFFICE OF THE COUNTY AUDITOR

Keith Zumbrun C.I.S.A.
Acting County Auditor

March 2007

Lewis R. Riley, Secretary
Maryland Department of Agriculture

Pursuant to Section 212 of the Howard County Charter and in response to your Department's request, we have completed a review of the cash receipts and disbursements of the

HOWARD COUNTY, MARYLAND AGRICULTURAL LAND PRESERVATION PROGRAM

for the fiscal year ended June 30, 2006. Our report included a review of legislation relating to Agricultural Tax Revenues to determine the County's compliance thereto. It is our opinion that the Howard County Agricultural Land Preservation Program is operated in accordance with all applicable State and Local guidelines and that internal controls in place are adequate to ensure the proper recognition and collection of Maryland Agricultural Transfer Tax.

We wish to express our gratitude to the staffs of the Agricultural Land Preservation Program, the Departments of Finance and Planning & Zoning and the Maryland State Department of Assessments & Taxation for the cooperation and assistance extended to us during the course of this engagement.

Keith N. Zumbrun, CISA
Acting County Auditor

Dilawar Lakhani, CPA
Auditor-in-Charge

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AGRICULTURAL LAND PRESERVATION PROGRAM
REVIEW OF REVENUES, EXPENDITURES AND FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

INTRODUCTION AND SCOPE

In response to the State of Maryland Department of Agriculture requirement, our audit was conducted to determine the following:

- The fund balance of the Agricultural Land Preservation Fund
- The amount of Agricultural Tax Revenues collected by Howard County
- The amount of Agricultural Tax Revenues forwarded from Howard County to the State of Maryland
- The amount of funds expended from Agricultural Tax Revenues and the purpose of those expenditures
- Compliance with the State's "three year rule" relating to the expenditure of Agricultural Tax Revenues
- Adequacy of internal controls over the recognition and collection of Agricultural Tax Revenues

Howard County also designates 25% of its local Transfer Tax for Agricultural Preservation purposes and includes these amounts, along with the State Agricultural Transfer Tax Collections, in the County's Agricultural Land Preservation Fund. We therefore reviewed the collections and expenditures of the fund as a whole, and performed specific audit steps relating to the percentages and rules pertaining to State Agricultural Tax Revenues.

AGRICULTURAL LAND PRESERVATION PROGRAM
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

REVENUES (NOTE 1)

Local Transfer Taxes (Note 2)		\$9,356,066	
State Agricultural Transfer Tax (Note 4)	\$1,697,369		
Agricultural Transfer Tax Remitted to State Comptroller (Note 4)	(424,342)	1,273,037	
Sale of Agland Easements (Note 3)		<u>53,205</u>	
			<u>\$10,682,298</u>

EXPENDITURES

Administration		\$333,823	
Overhead		173,740	
Principal Payments on Development Rights Debt (Note 4)	\$227,000		
Interest on Development Rights Debt	<u>4,129,963</u>	\$4,356,963	
Interest Expense (Note 5)		1,748,921	
Easement Acquisition		<u>21,887</u>	
			<u>\$ 6,635,334</u>

Excess (Deficiency) of Revenues over Expenditures \$ 4,046,964

Fund Balance, June 30, 2005 \$47,574,710

Fund Balance, June 30, 2006 (Note 6) \$51,621,674

The accompanying NOTES are an integral part of this financial statement.

AGRICULTURAL LAND PRESERVATION PROGRAM
REVIEW OF REVENUES, EXPENDITURES AND FUND BALANCE

NOTES TO THE FINANCIAL STATEMENTS

1. The revenues accumulated in the Howard County Agricultural Fund represent receipts from both the State Agricultural Transfer Tax and a portion of the County's Local Transfer Tax. Also included in the revenues are interest related to the above taxes and application fees collected. The expenditures in this fund are charged against the accumulated revenues received and represent the expenditures of the Agricultural Land Preservation Program.
2. Howard County has designated 25% of its annual local Transfer Tax to the Agricultural Land Preservation Program.
3. There is a provision in the Agricultural Land Preservation Program which allows landowners to set aside up to one acre of land for each of their children so that they can build a house on that land. During FY 2006 six landowners exercised that option on land which had been put into the program and reimbursed the County for the amount which was received and released from the program.
4. In accordance with Article 13, Section 301-Agricultural Land Transfer tax, Tax Property Article of the Annotated Code of Maryland: the County Collected \$1,697,369 of State Agricultural Transfer Tax during the year ended June 30, 2006. The activity specifically related to these State Agricultural Transfer Tax collections is summarized as follows:

Balance - June 30, 2005	\$0
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ADD:

Revenue

State Agricultural Transfer Tax:

July 1, 2005 - June 30, 2006	\$1,697,369
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TOTAL REVENUES THROUGH 6/30/06	\$1,697,369
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LESS:

Expenditures

Transfer Tax Remitted to State	\$424,342
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Principal Payment of Development Rights Debt	\$227,000
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Interest on Development Rights Debt	<u>4,129,963</u>
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TOTAL EXPENDITURES	<u>\$4,781,305</u>
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Balance - June 30, 2006 (cannot be less than zero)	<u>\$ 0</u>
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5. Interest expense on investments of \$1,748,921 includes both interest earned on investments of \$1,891,513 and an unrealized loss on investments of \$1,891,513 and an unrealized loss on investments of \$3,640,434 due to a GASB 31 adjustment.
6. The Agricultural Land Preservation Program currently in effect in Howard County has been established to allow landowners to sell the development rights on their land to the County. The County gives the landowner an installment purchase agreement, which is in the form of a bond, whereby the County agrees to make semi-annual interest payments on the principal balance for thirty years. Most of the principal is paid in a balloon payment at the end of the thirty years. However, there are some relatively small principal payments made over the course of the thirty-year period because the Howard County Charter requires that principal payments must be made at least once every two years. The total principal debt amount at June 30, 2006 is \$52,581,000. This is classified as a long-term debt of Howard County. When the agreement is approved, the County purchases a zero-coupon bond which will earn interest and grow until it is equal to the balloon payment when it matures in thirty years. The purchase price of the zero-coupon bonds and the amount of interest earned to date are both included in the Agricultural Land Preservation Program fund balance. The fund balance also includes some accrued interest payable on the installment purchase agreements since February 15, 2006, which becomes payable on August 15, 2006. The amounts in the \$51,621,673 fund balance at June 30, 2006, which are committed to the holders of the installment purchase agreements are:

Zero-Coupon Bonds-Costs	\$ 5,682,649
Unrealized gains on Zero-Coupon Bonds	9,972,976
Accrued Interest Payable on 8/15/06	<u>2,058,022</u>
Total	<u>\$17,713,647</u>

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